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	CIA OER S-05913-74
	7 February 1974
(1	IEMORANDUM FOR: Mr. John Johnston Office of Development Policy
	Department of the Treasury
•	SUBJECT: Oil and Taiwan's International Financial Position
	In response to your request, we are forwarding the attached material on the impact of higher oil costs on
	Taiwan's economy. Also included is a table showing the
	country's balance of payments since 1970. Although higher oil prices, and higher commodity prices in general, will
	have an adverse effect on the Taiwanese economy, the country does not face a major economic crisis and should
	weather 1974 in reasonably good shape. If you require
	additional material on this or related matters we would be glad to furnish it.
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	Industrial Nations Division
	Office of Economic Research
	Attachment: / 25X
	As stated
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Oil and Taiwan's International Financial Position

Higher oil prices in 1974 will boost Taiwan's oil import costs by an estimated \$300 million. Total oil import costs will amount to about \$500 million, equivalent to about 13% of last year's exports. Because of the country's relatively strong payments position, the higher costs can be absorbed without any serious difficulty. The domestic economy will continue strong in spite of some problems arising from the oil price hikes.

Taiwan's balance of payments position has improved steadily over the past several years. In 1972 the current account surplus amounted to \$513 million and, based on data for the first half of 1973, probably increased to a record \$600 million (See Table). The steady improvement over the past several years largely reflects Taiwan's growing trade surplus which amounted to about \$680 million last year. Exports grew by nearly 50% to \$4.5 billion in 1973 while imports rose by over 50% to almost \$3.8 billion.

Higher oil costs plus anticipated increases in nonoil imports will boost the value of Taiwan's foreign

purchases by perhaps 40% to an estimated \$5.3 billion.

Export growth will be slower than in the past because of economic slumps in Taiwan's major overseas markets.

Nonetheless, overseas sales will probably increase fast enough to avoid a trade deficit. We tentatively estimate that Taiwan's exports will increase by around 25% reaching about \$5.6 billion. Under these circumstances, the country would register only a small current account deficit.

Capital inflows should be sufficient to more than offset any likely current account deficit. Long-term capital inflows amounted to about \$90 million in 1972 and based on data for the first half of 1973 these inflows probably doubled last year to nearly \$175 million. Private capital inflows have increased especially fast. Indeed, foreign investment approvals last year rose up sharply over 1972 -- \$249 million compared with \$127 million.

Many of these investments will come to fruition in 1974.

Large net outflows of short-term private capital occurred last year, but this largely reflects the fact that Taipei temporarily restricted short-term borrowing as part of its anti-inflation program.

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Even if capital inflows slip somewhat, the country has relatively large exchange reserves on which to draw if necessary. Official foreign reserves rose from \$624 million at the end of 1970 to \$1 billion at the end of 1972, and by the end of November 1973, they totalled \$1.1 billion, the equivalent to 3 1/2 months of imports. In addition, commercial banks' foreign assets have risen sharply to about \$550 million. Although Taiwan is a net borrower of foreign capital, the ratio of its total debt service to total foreign exchange earnings was only about 7% in 1972, and probably remained at about that level in 1973. This debt service ratio is relatively low compared to that of other less developed countries. As of mid-1973, Taiwan's outstanding external debt totalled about \$1,750 million.

remains sound, the domestic economy faces some difficulties this year because of energy-related developments. Real economic growth will slow sharply because of slower export growth. We tentatively estimate that real growth will slow to around 6% to 8% this year compared with the 12%

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recorded in 1973. At the same time, higher oil costs will further stimulate inflation, already a serious problem. Last year, wholesale prices averaged 23% higher than in 1972, with prices accelerating during the latter part of the year. Last month, Taipei announced major price hikes for energy-related goods and services as well as for several imported commodities — foodstuffs and industrial raw materials and intermediate products — whose world market prices have jumped sharply.

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				,		•
		Balance of P				
	(n	illions of US	\$)	Jan-Jun	Jan-Jun	
	7070	1071	1972	1972*	1973*	
•	<u>1970</u>	1971	1912	13/2	_1773	
Current account:						
Exports (f.o.b.)	1,465.1	2,047.2	2,979.3		1,821.7	
Imports (f.o.b.)	1,376.1	1,754.6	<u>2,331.9</u>	1,098.1	1,446.3	
Merchandise trade				4		
balance	89.0	292.6	647.4		375.4	
Freight & insurance	-87.5	-104.5	-101.9		-88.0	
Travel	63.4	68.7	51.5		56.6	25
Government expenses	-1.0	-8.4	3.5	-10.6	-5.2	
_ Net factor income	-10.2	-3.0	1.7 .		-2.5	
Transfers	13.9	10.9	17.9	11.7	1.0	
Other transportation &				. 4		
services a/	68.3	<u>-85.7</u>	<u>-107.0</u>	<u>-78.9</u>	-20.7	
Balance on current					22.6	
account	-0.7	170.6	513.1	132.3 .	316.6	
Capital account:	••	• .	•			
Direct private investment	61.4	51.4	23.7	17.7	18,7	
Other private long term	****	•				
capital	62.3	35.4	59.8	40.3	. 64.8	
Government	-9.7	3.5	7.2	. 7.8	3.8	
Balance on capital						
account	114.0	90.3	90.7	65.8	87.3	
Basic balance	113.3	260.9	603.8	198.1	403.9	
Private short term capital	68.3	-47.6	-26.2	46.5	-132.9	
Errors and omissions	1.3	5.2	5.2	-26.3	51.3	
				* 4	•	
Changes in foreign assets:						
Commercial banks	-21.6	-13.7	-72.3	NA NA	NA	
Central bank	204.5	233.8	655.3	NA	NΑ	
Monetary gold	0.0	-1.6	-0.2	NA_	<u> </u>	
Net change	182.9	218.5	582.8	218.3	322.3	

a/ Includes nonmonetary gold
* Preliminary

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